PUBLIC DISCLOSURE

March 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Chestnut
10885

100 Olive Street
Chestnut, Illinois 62518

Federal Deposit Insurance Corporation
Division of Supervision and Consumer Protection
Chicago Regional Office
500 West Monroe, Suite 3500
Chicago, Illinois 60661

NOTE: **This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

TABLE OF CONTENTS

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of ***Bank of Chestnut*** *prepared by the* ***Federal Deposit Insurance Corporation****, the institution's supervisory agency, as of* ***March 3, 2003****. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Bank of Chestnut's performance reflects a satisfactory level of helping to meet the credit needs of its assessment area. This rating is based upon an analysis of the bank's home mortgage and agricultural lending activity; the primary credit focus of this institution. The bank's performance in lending to borrowers of different income levels and to small farms was most heavily weighted in reaching the overall composite CRA Rating. Also, consideration was given to: the percentage of loans made within the assessment area, the bank's average net loan-to-deposit ratio, and the geographic distribution of the bank's home mortgage and agricultural loans.

The following is a summary of the evaluation findings:

- A substantial majority of the bank's loans by number (91 percent) and by dollar volume (94 percent) have been made within the assessment area.

- Home mortgage loans have been reasonably extended to all income groups within the assessment area, including low- and moderate-income borrowers.

- The bank has demonstrated a good record of lending to farms of different revenue sizes, including small- and medium-sized and farms.

- The geographic distribution of the bank's loans within the assessment area is reasonable, given the location of the bank. There were no conspicuous "gaps" in the geographic distribution that could not be reasonably explained by the performance context.

- The bank has demonstrated a reasonable volume of lending throughout the current evaluation period. The bank's average net loan-to-deposit ratio of 82 percent is the highest among similarly situated lenders.

- There have been no CRA complaints filed with the bank or with the FDIC Regional Office since the bank's prior CRA Evaluation dated May 29, 1998.

DESCRIPTION OF INSTITUTION

Bank of Chestnut is a $16 million financial institution located in a single banking office in Chestnut, Illinois. Chestnut is a rural agricultural community with a population of 360 located in the southeast quadrant of Logan County.

Bank of Chestnut is a full-service bank that offers a typical array of conventional loan and deposit products. The bank's primary business focus is upon home mortgage and agricultural lending. These two product lines represented 72 percent of the bank's total loan portfolio, by dollar volume, on December 31, 2002. On December 31, 2002, the bank reported total assets of $16,241,000, net loans of $9,749,000 and total deposits of $14,411,000, yielding a net loan-to-deposit ratio of 68 percent and a net loan to asset ratio of 60 percent. Since June 30, 1998 (the calendar quarter following the institution's last CRA Evaluation), the bank's total deposits have grown by $3.8 million or 35 percent while net loans have grown by $1.1 million or 13 percent. However, as discussed below, the bank's lending volume has been affected by formal enforcement actions that have been placed upon it by state and federal regulators.

Specifically, the bank has operated under an Order of Cease and Desist ("Order") since March 19, 2001. The Order contained several provisions that restrict the bank's ability to lend within its assessment area. Additionally, as a result of continued concerns on behalf of state and federal regulators, the bank entered into a new Order on February 10, 2003. The February 2003 Order also contains similar lending restrictions as those contained in the March 2001 Order. Thus, the bank's lending performance, during the current evaluation period, has been affected by formal enforcement actions placed upon it by the bank's primary supervisory regulators.

The composition of the bank's loan portfolio, as well as the business focus of this institution, has changed somewhat since the previous CRA evaluation dated May 29, 1998. The previous evaluation reported residential real estate and consumer lending as the primary business focus, with such loans comprising 34 percent and 26 percent of the total portfolio, respectively. As illustrated in Table 1, residential real estate loans now comprise 48 percent and consumer loans now comprise only 17 percent of the total loan portfolio, by dollar volume. The change in business focus is largely a result of bank management trying to lessen the credit risk in its loan portfolio. Thus, residential real estate lending activity has been increased and consumer installment and unsecured lending activities have been lessened since the previous evaluation.

Residential mortgage lending remains a product focus at this institution. Bank of Chestnut offers a variety of conventional home mortgage loan products, including home purchase, home refinance, home improvement, and rental single family property loans. For home mortgage lending, the bank generally requires a 20 percent down payment and underwrites such loans with 5-year balloon maturity terms. For the period January 1, 2001 through December 31, 2002, bank records indicate that 49 home mortgage loans totaling $2 million were originated. To a lesser degree, the bank also offers longer-term fixed-rate mortgages that are sold into the secondary market. Specifically, nine residential mortgage loans, totaling $643,000, were originated and sold by subject bank into the secondary market during calendar years 2001 and 2002.

Bank of Chestnut is also a significant agricultural lender as such loans represented 24 percent of the bank's total loan portfolio, by dollar volume, on December 31, 2002. However, it is important to point out that this product line reflects seasonal fluctuations in dollar volume throughout the year, primarily due to farm operating loans. Typically, farm-operating loans are funded during earlier portions of the year, during the planting and growing seasons and are paid-off, after crops are harvested and sold. Thus, many of the bank's farm operating loans for calendar years 2001 and 2002 were paid-off and are therefore not included in the loan balances reflected in Table 1. In addition to farm operating loans, the bank also offers agricultural financing for: the purchase of farm real estate, the purchase of machinery and equipment, and the production of livestock. During the period January 1, 2001 through December 31, 2002, the bank originated 65 agricultural loans totaling $4.2 million. The majority of these loans were for crop production and for the purchase of machinery and equipment, rather than for the purchase or refinance of farm real estate. Opportunities for farm real estate lending have been generally limited throughout the entire assessment area. A community contact confirmed that there have been very few farm sales in Logan or DeWitt Counties in recent months.

A further breakdown of Bank of Chestnut's loan portfolio is detailed in Table 1.

Table 1 - Loan Distribution as of 12/31/2002

Loan Type	Dollar Amount (000s)	Percent of Total Loans
Construction and Land Development	$157	1%
Secured by Farmland	$506	5%
1-4 Family Residential	$4,750	48%
Multi-Family (5 or more) Residential	$0	0%
Commercial	$371	4%
Total Real Estate Loans	**$5,784**	**58%**
Agricultural	$1,917	19%
Commercial and Industrial	$536	6%
Consumer	$1,723	17%
Other	$37	0%
Less: Unearned Income	$0	
Total Loans	**$9,997**	**100%**

Source: Report of Condition.

Bank of Chestnut operates in a competitive environment. As of June 30, 2002 (most recent data available), the Federal Deposit Insurance Corporation (FDIC) reported 18 FDIC-insured financial institutions operating 30 banking offices within the bank's assessment area. Also, the assessment area contains an office of Farm Credit Services, a strong competitor for agricultural loans, and a branch office of a $2.3 billion credit union that has become a dominant residential mortgage and consumer lender throughout Central Illinois. Thus, Bank of Chestnut has a great deal of competition for loans and deposits within its assessment area.

The bank was assigned a CRA rating of “Satisfactory” at its prior FDIC Evaluation, performed as of May 29, 1998. The previous rating was assigned using the small bank procedures, as is the current rating.

DESCRIPTION OF ASSESSMENT AREA

A full scope on-site evaluation of the bank’s assessment area was completed. Bank of Chestnut has designated all eight Block Numbering Areas (BNA’s) of Logan County and two BNA’s (9716 and 9717) in DeWitt County as its assessment area. The entire assessment area is contiguous and no portion of the area is located in a Metropolitan Statistical Area (MSA). The bank’s assessment area is consistent with the requirements of the CRA regulation, as it is composed of whole geographies and includes the geographies in which the bank’s offices and other deposit-taking facilities are located. Additionally, the bank’s assessment area does not arbitrarily exclude any low- or moderate-income geographies.

The bank’s assessment area is primarily rural and homogenous. The total population of the assessment area is 37,712. The assessment area is composed of eight middle-income and two upper-income geographies. Cities located within the assessment area include: Lincoln (population 15,418); a portion of the City of Clinton (population 7,485); Mount Pulaski (population 1,800); and Atlanta (population 1,649). Additionally, several small villages with population of 500 or below are located within the assessment area. These villages include: Chestnut; Kenney; Lake Fork; Cornland; Beason; Waynesville; Lawndale; Elkhart; Broadwell; Middletown; New Holland; Hartsburg; Emden; and Armington.

Unless otherwise stipulated, the demographic information reported in this evaluation is based upon the 1990 Census. The 1990 Median Family Income (MFI) for the State of Illinois non-metropolitan area is $29,693. This MFI number is used to determine the income category of each geography. Income ranges are categorized as follows: low-income (0 to 49 percent of MFI); moderate income (50 to 79 percent of MFI); middle-income (80 to 119 percent of MFI); and upper-income (120 percent and above of MFI). Borrower income classifications are based on the Department of Housing and Urban Development (HUD) adjusted Median Family Income (MFI) for the corresponding year in which the credit was originated. The HUD estimated MFI figures for the State of Illinois non-metropolitan area are $44,900 for 2001 and $46,700 for 2002.

Table 2 compares the housing, income, and demographic characteristics of the bank’s assessment area to all counties located in non-metropolitan portions of the State of Illinois. Overall, the income characteristics of the assessment area reflect lower poverty rates and lower percentages of low- and moderate-income families, when compared to the State non-metro areas. Additionally, in terms of housing characteristics, the assessment area reflects similar owner-occupancy levels, higher median home values and gross rents, and a similar age of housing stock, when compared to the State non-metro areas.

Table 2 – Demographic & Economic Information		
Category	Assessment Area	State of Illinois – Nonmetropolitan Areas
Population:	37,712	1,856,803
Percentage of Families by Income Levels:		
Low-Income	14%	20%
Moderate-Income	16%	19%
Middle-Income	24%	23%
Upper-Income	46%	38%
Percentage Census Tracts by Income Levels:		
Low-Income	0%	1%
Moderate-Income	0%	14%
Middle-Income	79%	75%
Upper-Income	21%	10%
N/A	0%	0%
Percentage of Families Below Poverty Level:	8%	10%
Percentage of Total Housing Units:		
1-4 Family Residential Units	88%	84%
Multi-Family Units	5%	6%
Mobile Homes and Other	7%	10%
Owner-Occupied Housing Units	66%	66%
Rental Housing Units	29%	25%
Vacant Housing Units	6%	9%
Median Housing Characteristics:		
Median Age in Years	36	36
Median Home Value 1990	$47,781	$41,152
Median Gross Rent 1990	$330	$300

** Figures based on 1990 Census data*

No dominant employers are headquartered in the bank's assessment area. The Clinton Nuclear Power Plant, located on Clinton Lake in DeWitt County, is the largest employer with over 900 workers. However, community contact information revealed that the Power Plant has significantly reduced its workforce in recent months through job layoffs and downsizing. Reportedly, the Power Plant now employs between 400 and 500 workers. Additionally, the community contact indicated that a significant percentage of the assessment area population regularly commutes to work in the nearby cities of Bloomington-Normal; Champaign; Springfield, and Decatur, Illinois. With no dominant employers, the local economy is more dependent upon small farms and small businesses located within the assessment area. According to 2002 Dun & Bradstreet data, the assessment area contains 493 farms and 1,840 nonfarm business establishments of various sizes and maturity levels. Approximately 82 percent of the businesses and 98 percent of the farms, in the assessment area, generate less than $1 million in gross annual revenue. This data suggests that there are opportunities for financial institutions to make small business and small farm loans within the designated assessment area. Table 3 provides further information on large employers located within the assessment area.

Table 3 - Large Employers in Logan and Dewitt Counties				
Name	**City**	**State**	**# of Employees**	**Product/Service**
Clinton Nuclear Power Plant	Clinton	IL	957	Nuclear power
Logan and Lincoln Corrections	Lincoln	IL	750	Prisons
Eaton Corp/Cutler Hammer	Lincoln	IL	560	Electric controls
Abraham Lincoln Memorial Hospital	Lincoln	IL	332	Health care
MII, Inc.	Lincoln	IL	238	Store fixtures
Precision Products	Lincoln	IL	230	Lawn & garden equipment

Source: Lincoln & Logan County Chamber of Commerce, City of Clinton, Illinois Website

As illustrated in Table 4, the local economies have weakened since December 2001. DeWitt County shows the largest increase in unemployment with the rate increasing nearly three percentage points from December 2001 to December 2002. This increase can be attributed to the closing of two manufacturing plants in Clinton in 2001, namely the Revere Ware Corporation (approximately 400 employees) and the Thrall Manufacturing Company (approximately 150 employees). The Revere Ware Corporation and the Thrall Manufacturing Company were two of Clinton's largest employers. Also, downsizing at the Clinton Power Plant has contributed to the high unemployment rate of DeWitt County. Logan County experienced its own set back with the 2002 closing of the Lincoln Developmental Center, a State mental health facility, which employed 683 people as of March 2002.

Table 4 - Unemployment Rates in Comparison to State of Illinois' Average Rate			
County	**December 2002**	**November 2002**	**December 2001**
Logan	6.6%	6.9%	4.0%
Dewitt	8.1%	7.9%	5.2%
State of Illinois	6.3%	6.3%	5.8%

Source: Illinois Department of Employment Security

Economic conditions have also impacted housing values in Logan County. Data released by the Illinois Association of Realtors reflects that there were 308 single-family homes sold in the county during calendar year 2002, down from 335 home sales in 2001. This results in an 8.1 percent decrease in home sales for the year. Additionally, the median price of Logan County homes declined by 2.3 percent for the year. As a point of comparison, the median price of homes throughout the State of Illinois increased, on average, by 6.7 percent. The Statewide average of $161,700 contrasts sharply with the Logan County median price of $68,300. The deteriorating local economy is believed responsible for the decline in housing values during 2002. Table 5 provides further details.

Table 5 – Median Price of Existing Single Family Homes in Illinois			
Local Association Markets	**2001**	**2002**	**% Change from 2001 to 2002**
Logan County	$69,900	$68,300	(2.3%)
State of Illinois	$151,500	$161,700	6.7%

Source: Illinois Association of Realtors – March 2003; Home sales data for DeWitt County was unavailable.

One community contact was conducted during this evaluation. The community contact stressed the need for home mortgage loans in the assessment area as the low interest rate environment continues to stimulate home sales and home refinancings. Even though home sales declined in Logan County between 2001 and 2002, the contact indicated that the overall number of sales for the year (308) is still an indicator that people need financing to purchase homes. The contact also indicated that the median age of housing stock throughout the assessment area (36 years) suggests that home improvement loans are also needed in the community. Overall, the contact indicated that local financial institutions are making adequate efforts to meet these needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope and Data Sampled

As discussed earlier, the bank's primary business focus is residential mortgage and agricultural lending. Appropriately, these two product lines will be considered for this evaluation. On December 31, 2002, these two product lines represented 72 percent of the bank's total loans by dollar volume. For purposes of this evaluation, only loans originated from January 1, 2001 through December 31, 2002 were analyzed as such loans are considered to be representative of the bank's lending since the May 29, 1998 evaluation. Small business lending was not considered during this evaluation as such lending is not a major product focus of the bank.

To assist with identifying residential mortgage and agricultural loans, an electronic file of the bank's loan portfolio was obtained as of the close of business February 28, 2003. Additionally, monthly new loan reports were reviewed to assist in the identification of agricultural loans made in calendar years 2001 and 2002. These reports were utilized because many of the bank's farm operating loans originated in 2001 and 2002 had been paid-off and removed from the electronic loan file. Thus, utilization of monthly new loan reports resulted in a more accurate determination of the universe of agricultural loans. Tables 6 and 7 provide details on the universe and sample size of home mortgage loans and small farm loans originated by the bank during 2001 and 2002.

Table 6 – Universe and Sample Size of Home Mortgage Loans				
	Universe		**Sampled Loans**	
Year	**#**	**$(000s)**	**#**	**$(000s)**
2001	21	739	21	739
2002	28	1,243	28	1,243
Total	**49**	**1,982**	**49**	**1,982**

Source: Bank Records

Table 7 – Universe and Sample Size of Small Farm Loans				
	Universe		**Sampled Loans**	
Year	**#**	**$(000s)**	**#**	**$(000s)**
2001	34	1,988	34	1,988
2002	31	2,234	31	2,234
Total	**65**	**4,222**	**65**	**4,222**

Source: Bank Records

Assessment Area Concentration:

♦ ***A substantial majority of the bank's home mortgage and small farm loans have been made within the assessment area.***

Overall, 91 percent of the number and 94 percent of the dollar volume of loan originations were made within the assessment area. All of the bank's small farm loans, originated in calendar years 2001 and 2002, were made within the assessment area. Home mortgage loans also reflect a healthy concentration of lending within the assessment area, especially during calendar year 2002. The concentration of home mortgage loans, by number of loans, within the assessment area increased from 62 percent in 2001 to 93 percent in 2002. The lower home mortgage concentration level for calendar year 2001 appears to have been an aberration, as four of the eight mortgage loans made outside of the assessment area during the year were actually on properties located in DeWitt County. However, the four properties were located in portions of DeWitt County that were just outside of the bank's designated assessment area. Overall, the bank has demonstrated good performance under this assessment criterion. Table 8 provides further details on the bank's record of lending within its assessment area.

Table 8 – Distribution of Loans Inside of the Assessment Area

Loan Type	Number of Loans					Dollars in Loans (000s)				
	Inside AA		Outside AA		Total	Inside AA		Outside AA		Total
	#	%	#	%		$	%	$	%	
Home Mortgage										
2001	13	62%	8	38%	21	$507	69%	$232	31%	$739
2002	26	93%	2	7%	28	$1,099	88%	$144	12%	$1,243
Subtotal	39	80%	10	20%	49	$1,606	81%	$376	19%	$1,982
Small Farm										
2001	34	100%	0	0%	34	$1,988	100%	$0	0%	$1,988
2002	31	100%	0	0%	31	$2,234	100%	$0	0%	$2,234
Subtotal	65	100%	0	0%	65	$4,222	100%	$0	0%	$4,222
Total	**104**	**91%**	**10**	**9%**	**114**	**$5,828**	**94%**	**$376**	**6%**	**$6,204**

Source: Bank Records

Borrower Characteristics:

♦ ***Bank of Chestnut has demonstrated a good record of lending to borrowers of different income levels and to farms of different sizes.***

Bank of Chestnut has demonstrated a good distribution of residential mortgage lending to all income groups, including low- and moderate-income borrowers in the assessment area. Despite the lack of innovative and flexible in-house mortgage lending programs that target low- and moderate-income borrowers, the bank has been able to penetrate these income segments at a level that compares well to the income demographics of the assessment area.

According to the 1990 Census, low-income families represent 14 percent of the total families in the assessment area. It is important to point out that 8 percent of the low-income families in the assessment area live below the poverty level. Families, with income below poverty, generally have difficulty in qualifying for conventional home purchase loans, as such families focus a greater percentage of their income on basic daily living expenses. Therefore, the true percentage of low-income borrowers seeking home loans is closer to 6 percent, once poverty level borrowers are taken into consideration. As a point of comparison, the bank made 8 percent and 15 percent of its home mortgage loans to low-income borrowers in calendar years 2001 and 2002, respectively. Thus, when considering the percentage of families in the assessment area that live below poverty, the bank's record of home mortgage lending to low-income borrowers is considered very good for 2001 and excellent for 2002.

Similarly, Bank of Chestnut made 15 percent and 19 percent of its home mortgage loans to moderate-income borrowers in calendar years 2001 and 2002, respectively. This penetration of lending to moderate-income borrowers also compares well to income demographics of the assessment area, which reflects that 16 percent of the families in the assessment area were identified as moderate-income. Thus, the bank demonstrated a good level of lending to moderate-income borrowers in both 2001 and 2002.

Additionally, Table A1 in Appendix A reflects a distribution of mortgage loans, by dollar volume of loans, to the various borrower income groups. The concentration of home mortgage loans to low-income borrowers, by dollar volume, was 2 percent and 15 percent, respectively, for 2001 and 2002. The lower concentration of lending in 2001 appears to be an aberration as only one loan was made to a low-income applicant during the year and it was in a small dollar amount. However, the bank's dollar concentration improved significantly in 2002 to a level that exceeds the percentage of low-income borrowers in the assessment area. The dollar distribution to moderate-income borrowers matched the population demographics in 2001 and slightly lagged the demographics in 2002. Overall, the bank's dollar distribution to all income groups, including low- and moderate-income groups is considered adequate. Table 9 reflects the bank's distribution of home mortgage lending to all income groups, by number of loans.

Table 9 – Distribution of Home Mortgage Loans by Income Category of the Borrower

Borrower Income Level	Percent of Total Families in AA	2001		2002		Total	
		#	%	#	%	#	%
Low	14%	1	8%	4	15%	5	13%
Moderate	16%	2	15%	5	19%	7	18%
Middle	24%	8	62%	14	54%	22	56%
Upper	46%	2	15%	3	12%	5	13%
Total	**100%**	**13**	**100%**	**26**	**100%**	**39**	**100%**

Source: U.S. Census (1990), Bank Records.

Definitions:

> ***Low-Income*** *= an individual income that is less than 50% of the area median income.*
> ***Moderate-Income*** *= an individual income that is at least 50% but less than 80% of the area median income.*
> ***Middle-Income*** *= an individual income that is at least 80% but less than 120% of the area median income.*
> ***Upper-Income*** *= an individual income that is at least 120% of the area median income*

.

> ***Area Median Income (AMI)*** *= For loans originated in 2001 and 2002 in the assessment area, the AMI is the estimated median family income for the non-metropolitan areas of the State of Illinois which was $44,900 and $46,700, respectively. The population distribution is based on the 1990 Census and the 1990 AMI for the State of Illinois (Non-metro areas) was $29,693.*

The bank's performance in providing agricultural loans to farms of different sizes was also evaluated under this assessment criterion. For this analysis, loan amount was considered as a proxy for farm size. Typically, loans extended in amounts of $100,000 or less are often in demand by smaller farms that cannot service larger dollar amounts of agricultural debt. Thus, the bank's record of making agricultural loans, in smaller dollar sizes, is an indication of its performance in lending to small farms.

Table 10 illustrates the bank's distribution of agricultural loans in the assessment area by loan amount. Specifically, in calendar years 2001 and 2002, the percentage of the number of loans, originated in amounts of $100,000 or less, was 85 percent and 81 percent, respectively. Additionally, when loans of $250,000 or less are considered, the distribution improves to 100 percent and 94 percent for 2001 and 2002, respectively. This lending performance reflects that the bank is making excellent efforts to meet the credit needs of small- and medium-sized farms in the assessment area.

A similar distribution, by dollar volume of agricultural loans, is reflected in Table A2 in Appendix A. The concentrations by dollar volume in loans with original amounts of "$100,000 or less" are dramatically lower, at 57 percent and 49 percent in 2001 and 2002, respectively. However, the declines in the smaller loan size segments are expected given that the distributions are shown by dollar amount, and therefore are naturally skewed toward the higher dollar amount categories by a few number of loans. Because of this fact, more weight is afforded the distribution by number of loans, as reflected in Table 10 below.

Table 10 – Distribution of Small Farm Loans by Loan Size

Loan Size (000s)	2001		2002		Total	
	#	%	#	%	#	%
≤ $25	14	41%	11	35%	25	38%
>$25 - $50	5	15%	3	10%	8	13%
>$50 - $100	10	29%	11	36%	21	32%
>$100 - $250	5	15%	4	13%	9	14%
>$250	0	0%	2	6%	2	3%
Total	**34**	**100%**	**31**	**100%**	**65**	**100%**

Source: Bank Records

Loan to Deposit Ratio:

- ***Bank of Chestnut has demonstrated an adequate level of lending during the evaluation period.***

The bank's net loan-to-deposit ratio is reasonable given the bank's size, the competitive market it operates in, and the credit needs of the assessment area. Bank of Chestnut's average net loan-to-deposit ratio for the evaluation period is 82 percent. This average is based on the 19-calendar quarter period ending December 31, 2002. However, the bank's net loan to deposit ratio has been in a declining trend since June 30, 2000. Specifically, for the prior 19 calendar quarter period, the bank's net loan-to-deposit ratio has fluctuated from a high of 95 percent on June 30, 2000 to a low of 68 percent on December 31, 2002. Loan charge-offs and collections, an increasing Allowance for Loan and Lease Losses (ALLL), and deposit growth have contributed to the bank's declining net loan to deposit ratio, since June 2000. Additionally, the bank has operated under a formal enforcement action since March 2001. The formal enforcement action has placed certain restrictions upon the bank's ability to lend.

Six similarly situated financial institutions were identified in Logan and DeWitt Counties. These institutions have similar loan compositions and have total assets ranging from $5 million to $67 million. The six similarly situated lenders had average net loan to deposit ratios ranging from 49 percent to 79 percent for the 19 calendar quarter period ending December 31, 2002. Thus, Bank of Chestnut's average net loan to deposit ratio of 82 percent would rank it, first among the seven total institutions. Overall, Bank of Chestnut has demonstrated adequate performance under this assessment criterion.

Geographic Distribution:

- ***Bank of Chestnut has achieved a reasonable distribution of its home mortgage and agricultural loans throughout the various geographies of the assessment area.***

As discussed previously, the bank's assessment area is homogenous and includes no low- or moderate-income census tracts. Of the geographies within the assessment area, eight are designated as middle-income tracts and two are designated as upper-income tracts. Because of the composition of the bank's assessment area, more weight is placed on the borrower distribution by income level and the agricultural loan distribution by loan size.

A majority of the bank's home mortgage loans are distributed throughout the middle-income geographies of the assessment area. This is to be expected, as 79 percent of the total owner-occupied housing units in the assessment area are located within middle-income geographies. As reflected in Table 11, the bank made 85 percent and 96 percent of its home mortgage loans in middle-income geographies during calendar years 2001 and 2002, respectively. This performance exceeds the geographic dispersion of owner-occupied housing units in middle-income geographies. However, it is also important to note that one of the two upper-income geographies in the assessment area is included in the City of Clinton, where several financial institutions already exist. Thus, performance context contributes to the bank's lower concentration of home mortgage lending in upper-income geographies of the assessment area. Additionally, Table A3 in Appendix A provides a similar distribution by dollar volume of home mortgage loans.

Table 11 – Distribution of Home Mortgage Loans by Income Level of Census Tract							
Census Tract Income Level	**% of Total Owner-Occupied Housing Units**	**2001**		**2002**		**Total**	
		#	**%**	**#**	**%**	**#**	**%**
Middle	79%	11	85%	25	96%	36	92%
Upper	21%	2	15%	1	4%	3	8%
Total	**100%**	**13**	**100%**	**26**	**100%**	**39**	**100%**

Source: U.S. Census (1990), Bank Records.

As reflected in Table 12, agricultural loans are also concentrated in middle-income geographies of the assessment area. Specifically, the bank made 82 percent and 84 percent of its agricultural loans in middle-income geographies during 2001 and 2002, respectively. These concentrations of lending almost identically match the farm demographics of the assessment area, which show that 83 percent of the total farms in the assessment area are located in middle-income geographies. A similar distribution of agricultural loans, by dollar volume, is reflected in Table A4 in Appendix A.

Table 12 – Distribution of Small Farm Loans by Income Category of Census Tract								
Census Tract Income Level	**Total Number of Farms in AA**		**2001**		**2002**		**Total**	
	#	**%**	**#**	**%**	**#**	**%**	**#**	**%**
Middle	407	83%	28	82%	26	84%	54	83%
Upper	86	17%	6	18%	5	16%	11	17%
Total	**493**	**100%**	**34**	**100%**	**31**	**100%**	**65**	**100%**

Source: Bank Records and 2002 Business Geodemographic Data (Dun & Bradstreet).

Response to Consumer Complaints:

The bank has not received any complaints regarding its Community Reinvestment Act performance during the current evaluation period.

Compliance with Anti-Discrimination Laws and Regulations:

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.

APPENDIX A

Table A1 – Distribution of the Dollar Volume of Home Mortgage Loans by Income Category of the Borrower ($000s)							
Borrower Income Level	**Percent of Total Families in AA**	**2001**		**2002**		**Total**	
		$	**%**	**$**	**%**	**$**	**%**
Low	14%	$10	2%	$162	15%	$172	11%
Moderate	16%	$80	16%	$149	14%	$229	14%
Middle	24%	$374	74%	$691	63%	$1,065	66%
Upper	46%	$43	8%	$97	1%	$140	9%
Total*	**100%**	**$507**	**100%**	**$1,099**	**100%**	**$1,606**	**100%**

Source: U.S. Census, Bank Records.

Table A2 – Distribution of Small Farm Loans by Loan Size (Dollar Volume)						
Loan Size (000s)	**2001**		**2002**		**Total**	
	$	**%**	**$**	**%**	**$**	**%**
≤ $25	$146	8%	$104	5%	$250	6%
>$25 - $50	$203	10%	$100	4%	$303	7%
>$50 - $100	$779	39%	$900	40%	$1,679	40%
>$100 - $250	$860	43%	$527	24%	$1,387	33%
>$250	$0	0%	$603	27%	$603	14%
Total	**$1,988**	**100%**	**$2,234**	**100%**	**$4,222**	**100%**

Source: Bank Records

Table A3 – Distribution of Dollar Volume of Home Mortgage Loans by Income Level of Census Tract ($000s)							
Census Tract Income Level	**% of Total Owner-Occupied Housing Units**	**2001**		**2002**		**Total**	
		$	***%***	***$***	***%***	***$***	***%***
Middle	79%	$427	84%	$1,063	97%	$1,489	93%
Upper	21%	$80	16%	$36	3%	$116	7%
Total	**100%**	**$507**	**100%**	**$1,099**	**100%**	**$1,605**	**100%**

Source: U.S. Census, Bank Records

Table A4 – Distribution of Small Farm Loans by Income Category of Census Tract (Dollar Volume)								
Census Tract Income Level	**Total Number of Farms in AA**		**2001**		**2002**		**Total**	
	#	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Middle	407	83%	$1,541	78%	$1,873	84%	$3,414	81%
Upper	86	17%	$447	22%	$361	16%	$808	19%
Total	**493**	**100%**	**$1,988**	**100%**	**$2,234**	**100%**	**$4,222**	**100%**

Source: Bank Records and 2002 Business Geodemographic Data (Dun & Bradstreet).